

THE STUDY ON FACTORS INFLUENCING PERFORMANCE IN GENERAL INSURANCE – A CASE STUDY OF AN INSURANCE COMPANY IN KUALA LUMPUR

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A Master's Project submitted in partial fulfilment of the requirements for
the degree of Master of Project Management

Centre for Graduate Studies
Open University Malaysia

2011

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ABSTRACT

The case study is on an insurance company, which has a physical presence in 53 countries and commercial and individual customers in more than 170 countries. As a multinational company, managing people and connecting their performance to corporate objectives will always remain a concern and a challenge. A majority of organizations today have some sort of formal appraisal systems which make use of a standardized rating form that is used to evaluate employees' performance. This research shows the benefit of the 'balanced scorecard' (BSC) which measures the employees' performance based on the Key Performance Indicators (KPI). The KPI is aligned with the company's value, strategy, mission and goals. In order to develop the performance management system, the KPI, performance indicator, Service Level Agreement and the Project Performance Measurement will be identified. This study is done on the factors influencing performance in general insurance. Performance Management and BSC comprise the goals, feedback, training, appreciation and the employees' career development. With the usage of 'SMART' technique, a more realistic and achievable objectives can be created. The research was done through the analysis of the survey questionnaires that were distributed to the employees and the interview which been conducted with one of the managers. Through the analysis we will be able to identify the factors influencing performance in general insurance. Plus, it identifies whether the BSC is suitable and benefits the employees as a tool to evaluate the PM of the employees.

Keywords:

(Balanced scorecard, Key Performance Indicators (KPI), Performance Management, Project Performance Measurement, SMART Technique)

Pengkajian tentang factor-faktor yang mempengaruhi pengurusan prestasi di syarikat insuran – Penganalisaan kes ke atas sebuah syarikat insuran di Kuala Lumpur.

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JAN 2011

ABSTRAK

Analisa ini dilaksanakan ke atas salah sebuah syarikat insuran di Kuala Lumpur. Ia adalah syarikat insuran berfungsi fizikal di 53 negara; berfungsi komersial; individu pelanggan di 170 negara. Sebagai syarikat multinasional, pengurusan pekerja untuk meningkatkan prestasi adalah perhatian dan cabaran. Majoriti organisasi memiliki penilaian formal yang memanfaatkan borang penilaian pelbagai aspek prestasi pekerja. Tesis ini menunjukkan penggunaan “Balanced Scorecard” (BSC) lebih sesuai memanfaatkan pekerja-pekerja untuk mengukur dan melapor prestasi. BSC menjadi alat pengukur akauntabiliti untuk memantau prestasi berasaskan Penunjuk Prestasi Utama (KPI) terkandung dalam Tema Strategik syarikat insuran. BSC diselaraskan dengan misi, struktur organisasi dan nilai di syarikat insuran. Dalam mewujudkan sistem pengurusan ini, kaedah-kaedah KPI, Penunjuk Prestasi (PI), Perjanjian Tahap Perkhidmatan (SLA), Ukuran Prestasi Projek dan Penunjuk Amaran Awal dikenalpastikan. Pelaksanaan BSC merangkumi latihan dan pembangunan kompetensi, perubahan struktur organisasi, perubahan proses kerja, pembangunan dan perubahan teknologi. Penyelidikan ini adalah mengkaji factor-faktor yang mempengaruhi pengurusan prestasi di syarikat insuran. “Performance Management” (PM) dan (BSC) merangkumi penilaian dan wawancara tahunan termasuk penetapan tujuan pekerja, maklumbalas, latihan, penghargaan, pembangunan individu dan penggunaan teknik ‘SMART’ bagi menyelaraskan objektif kukuh dan pekerja mencapainya. Penyiasatan (PM) ini dilaksanakan dengan menganalisa data dari borang soal selidik diedarkan kepada pekerja di ASI dan temuramah dengan pengurus di ASI. Ini menentukan bagaimana penggunaan (BSC) lebih sesuai dalam pengurusan prestasi (PM) di syarikat insuran. Sampel kajian berasaskan pendapat pekerja atas factor-faktor yang mempengaruhi sistem pengurusan prestasi. Penemuan ini menyarankan factor-faktor yang mempengaruhi sistem pengurusan prestasi di syarikat insuran dan penggunaan (BSC) adalah mutlak dan menguntungkan pekerja-pekerja serta syarikat.

Kata Kunci:

(Penunjuk Prestasi Utama, teknik ‘SMART’, Penunjuk Prestasi, Ukuran Prestasi Projek, “Balanced Scorecard”)

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CHAPTER 1

INTRODUCTION

Developmental organizations embrace performance management processes that enable employees to become their greatest asset. When managers function as performance coaches, they become trainers, confronters, mentors, and counselors, providing positive feedback and reinforcement to improve skills and competencies that ultimately enhance overall employee performance. Performance management functions as an integral part of a comprehensive development strategy, although too few organizations subscribe to this philosophy (Gilley & Maycunich, 2000). Hence, the business world overflows with mediocre, stagnant, or failing organizations that stubbornly or ignorantly overlook their employees' potential. We believe that well-designed and well-executed performance management provides an excellent vehicle for promoting continuous employee and organizational growth and development (Gilley & Maycunich, 2000).

A company does not need managerial supermen to build a high performance management system; the system performs because its design enables ordinary people to deliver extraordinary results consistently. High performance does, however, require managers who understand, use and improve the system (Stankard, 2002). Most organizations already have the building blocks in the form of management approaches and capabilities; they just stop short of linking what they have into a continuous cycle, which can amplify the performance of the whole. It is this connecting the dots and getting all parts

working together that permanently boosts management effectiveness and business performance (Stankard, 2002).

The role of performance measurement is to help keep the organization on the operating on a straight and narrow track. The measures are used primarily by business specialists, and the action taken as a result of such analysis may also be exclusively good for the business. Nevertheless, it is also clear that evidence of business problems may occur because of deficiencies in other areas of business operations. In this case, the ratios can provide the company's director with the information necessary to convince other managers that operating action needs to be taken in order to avoid any company problem. However, the primary role served by this type of performance measurement lies within the province of the business function, and is concerned with the effective and efficient use of the company's resources (Neely, 2002).

Performance management and measurement has become a vital part of an organizations operation. It came from the need of organizations to monitor how it performs certain actions and operations that aims to reach its goals. Performance management and measurement was the prime motivator for companies to focus not only on business measures. Businesses that rely too much on business measures has led to the downfall of the company. To check the performance level of the company it needs to use various methodologies and techniques. One method is the balanced scorecard. The balanced scorecard was introduced by Robert Kaplan and David Norton to measure whether the activities of the company is meeting its objectives. The balanced scorecard has become a fertile field of theories and scholastic research. As times past, the balanced scorecard was altered by various individuals depending on the need of the environment. When a company

implements the balance scorecard it will translate the company's vision into operating goals. The balance scorecard will communicate the vision and then link it to individual and organizational performance, the balance scorecard will also lead to a much strategize business planning process. Lastly the balanced scorecard will help the company to know how to gain feedback and learn from such feedback. This in turn will help the company adjust its strategy according to the feedback and what they have learned from it.

The balanced scorecard is seen as a strategic management system that helps to incorporate all measures that have importance to the organization. The early styles of the balanced scorecard were seen as hard to design and because of this it was discontinued by organizations. Companies have various uses for the balanced scorecard. Companies use the balanced scorecard to drive strategy execution, clarify strategy and make strategy operational. There are some companies who use the balanced scorecard to identify and align strategic initiatives or use it to link budget with strategy. There is also a group who makes use of the balanced scorecard to align the organization with strategy. Another group is contented on using the balanced scorecard to conduct periodic strategic performance reviews to improve the company's strategy. The balanced scorecard is used by government agencies, various countries military troops, various segments within an organization and the whole business organization itself, non profiting organizations and school organizations as well. The study here will go further into the idea of the balanced scorecard. The study will determine the effects of the balanced scorecard on modern organizations.

Since employees are the most expensive as well as the most important resource in any company, it would be to the best advantage of both employer and employee to ensure the latter's satisfaction performance. But how employee productivity is maximized? This can

be attained and be made possible only when management provides a healthy climate for individual growth and development in the company. This will develop a good relationship between employer and employee.

The importance of evaluating and appraising every employee's job performance cannot be overemphasized. This is one of the oldest and most universal practices of personnel management. In many cases, the appraisal or evaluation is informal, unsystematic and unrecorded. Due to companies increasing awareness of its usefulness and benefits, training and personnel improvement professionals can find fertile ground for improving the personnel of large numbers of employees by applying management's goals to the basic technology. Generally, conscientious and concerned employees want to know how they are performing according to the set standards such as what is expected for them, how well they are meeting those expectations, how they can improve and what their supervisors think about the way they are performing their work. Therefore consciously or unconsciously the workers or employees are evaluating themselves by comparing themselves with their colleagues. Everyone's performance must be measured including the managers and manager's own performance is measured by the performance of the workers they manage.

1.1 Overview of the project

The title of my project is the study on factors influencing performance in general insurance – A case study of an insurance company in Kuala Lumpur. This performance management system is designed to help to track the performance of the employees in the insurance company and to monitor the sales closed by each employee which eventually lead to the profit margin of the company. After much research that has been done on the performance management system, not many insurance companies especially in the sales

line have a structured and organized performance management system. The case study is done on one of the insurance company in Kuala Lumpur. The insurance company is seeing a large variation in terms of general insurance sales among the sales team, and the management group strongly believes that it has more to do on individual performance rather than insurance package that the company is offering. The management would like to understand what is causing this variation, how it could be monitored consistently and what needs to be done to improve the performance of each individual in the sales team.

The objective of this research that I want to achieve is to study the factors that influencing the performance of employees in general insurance and also how it helps to increase the productivity of the insurance company. Basically this is the problem we are going to look at for this whole research. Before we go further of this problem, let's look at the background of the company that I did a case study on.

1.2 Overview of the company

The particular insurance company is one of the world's leading global commercial property and casualty insurance organizations. It has a physical presence in 53 countries and commercial and individual customers in more than 170 countries. It is one of the leading global providers of insurance and reinsurance. Furthermore it has been operating in Malaysia as a general insurer since 1948. The company offers a broad range of general insurance products through agents, brokers, direct marketing and telemarketing.

The insurance company provides a diversified range of products and services to clients through operations in more than 50 countries around the world, and has the authority to conduct business in over 140 countries. In a wide range of traditional and specialty lines, it uses its strong analytical skills, breadth of resources and global reach to deliver quality

products and exceptional service. The insurance company has a strong reputation in underwriting large and specialized risks in commercial and industrial projects that require high level of expertise and capacity. It is one of the leaders in the innovative distribution of Accident & Health products via Direct Marketing and Telemarketing. The insurance company serves the property and casualty insurance needs of businesses of all sizes in a broad range of industries. It also provides specialized insurance products such as personal accident, supplemental health and life insurance to individuals in select countries. This particular insurance company has a strong reputation in underwriting large and specialized risks in commercial and industrial projects that require high level of expertise and capacity. It is one of the leaders in the innovative distribution of Accident & Health products via Direct Marketing and Telemarketing. With a product offering as diverse as the customer base, this insurance company pride us on their ability to meet their clients' needs. They offer numerous tailored risk management solutions since the underwriters craft covers to fit specific client requirements, innovating by design rather than fitting risks into defined boxes. Guided by a strong underwriting culture, superior claims handling and diverse product offering, this insurance compnay helps clients manage their risks so they can pursue progress of their own. This is called 'Insuring Progress'.

The sales figures of the premium sold in a general insurance company is a blast as they total average revenue premium reaches RM 23,160,537.80 on an average basis for year to date which is against the year to date target of RM 25,157,966.15. The total average revenue premium is about 92.06% achieved by the company. This proves the point that the sales figure is booming. Basically the total average revenue premium sold for each employee after including the cancellation of premiums comes to an average of RM 52,236.

This is based on a monthly basis for the year of 2009. Average achievement as for month to date target it reaches for each employee is about 120% which is > than 100%.

The performance conducted in the general insurance company is done purely based on performance and manager's judgment. Little emphasis is made on other external factors which influences the employees' performance. Their performance are conducted monthly basis to calculate their performance bonus which been paid every month. The objective of their performance management is to ensure telemarketers are aligned with the campaign targets. In an insurance company, an employee will be given a 3 months probationary period. During this period the employee will be trained on the job and the company's objectives and targets will be cascaded. Therefore the employee will be given 3 months probation to learn the job and try to meet the targets. After the completion of 3 months probationary period, the employee or more known as telemarketer should be meeting the sales campaign targets. If the employee does not meet the target of at least 75%, there will be a six to eight months of coaching will be given. Even then, the employee does not meet or exceed the target given; a performance improvement plan will be drawn up. In the performance improvement plan, all the coaching and training methods as well the specific targets to be achieved within the specified time frame will be put in the plan as upon the agreement between the team leader and the employee or more known as telemarketer. In the plan, it is also stated if the employee does not meet the requirements as stated in the performance improvement plan, the employee should consider resigning. The employee will be put on this performance improvement plan for three months. If the employees are been put on the performance improvement plan and do not meet the requirements as stated in the performance improvement plan, they will be given a first warning and after 2 weeks and they still have not meet the requirements, they will be given a second warning. Finally

if no improvement been made on the next 2 weeks, the employees are required to leave the job. The performance rating scale that been used in an insurance company is as below:

- **Rating 1** – Consistently exceeds expectations
- **Rating 2** – Consistently meet and sometimes exceeds expectations
- **Rating 3** – Consistently meet expectation
- **Rating 4** – Typically meet and occasionally falls short of expectations
- **Rating 5** – Does not meet expectations.

In the insurance company all the team leaders will have one to one coaching with their staffs and instill positive attitudes in them by giving them moral support to meet the targets required. Furthermore ad hoc incentives such as vouchers are given to the employees if their sales targets are been exceeded or met. This is a part of their motivation program. Moreover, certificates, ad hoc cash and gifts such as hampers, electrical items and many more are given to the employees for exceeding their performance level. This is a part of recognizing their staffs that exceeds their performance level.

1.3 Problem Statement

The statement of the problem is so important in researches that it should be stressed regardless of the point value assigned to it in the reviewer's evaluation form. Performance management is or should be an eminently practical process closely aligned with others aspect of general management, and does not sit easily as an isolated subject for academic scrutiny. For example, much of the literature form the 80s and early 90s makes a separation between quality (service outcome) and performance (human resource outcome). In practice, such separation does not seem to make sense since both performance management and quality enhancement ultimately rely on human interventions and both pursue the goal of

delivering better services. There are different factors that contribute for a business to be successful. One factor is the strategies the business use, another factor is its brand name and image, moreover a factor can be the quality of the product and lastly a factor that contribute for a business to be successful can be the relation of the company with the society. Business will not be successful if their goals will not be reached. For them to reach their goals, it has to make sure that the activities of the company are meeting its objectives in terms of vision and strategy. The company has to focus not only on its financial performance but the issues faced by their personnel. The organization has to ensure the staffs are motivated and able to perform the job all the time. In order for the organization to reach their goals and develop the company to a higher level, the organization has to make sure the staffs' personal objective is aligned with the company's objectives and the organization has to come up with a personal development plan for each staffs for their development in the organization. The tools that will be used for to evaluate the staff performance and monitoring and encouraging their development on relevant areas will be looked into the later chapters.

1.4 Objectives of the Study on Performance Management

Performance is the primary reason for all the ins and outs of the business activities of any organization. All strategic planning and other management functions aim for maximum productivity or excellent performance in their respective departments. What impact would performance create on so that the goals and objectives of the organization can be accomplished or satisfied? How could every employee's performance really contribute or support its mission? This study also aims to increase both employees and organizations awareness for the need to develop a useful performance evaluation or appraisal system and appreciate its benefits, as well.

Performance should be measured for it to be managed, for no one can manage what he can't measure. And it also follows that; no one can improve what he can't measure. So if we are to create high-performance, we must also understand that it requires a definition that you would know when it is present and when it isn't.

The objectives, however, will focus on the necessary problems and objectives that should be clarified in order to gather the intended information. The aims and objectives of the study include:

1. Determine the history of the balance scorecard and what it has done to business over the years.
2. To determine how the balance scorecard works and its major strength and weaknesses.
3. To know whether balance scorecard has created a major change in business process.
4. To identify how the whole procedure of the balance scorecard changed business processes.
5. To identify how effective performance management system using the balance scorecard.
6. To identify how employees performance is been evaluated and how to help employees develop in their career line and enhancing their skills.

1.5 Research Questions

The research questions for this study will be:

- Does the performance management system in the general insurance company influence the performance in general insurance effectively?

- Does the productivity and process efficiency of employees influence the performance in general insurance effectively?

- Does the learning and growth of the employees influence the performance in general insurance effectively?

- Does the behavior of the employees and team orientation influence the performance in general insurance effectively?

- Does the upgrading of individual quality of work influence the performance in general insurance effectively?

1.6 Research Hypothesis

The hypothesis for this study will be:

- The Performance Management System in the general insurance company influences the performance in general insurance effectively.

- The productivity and process efficiency of employees influence the performance in general insurance effectively.

- The learning and growth of the employees influence the performance in general insurance effectively.

- The behavior of the employees and team orientation influence the performance in general insurance effectively.

- The upgrading of individual quality of work influence the performance in general insurance effectively.

1.7 Significance of Study

The study is important to businesses since they can know how the balanced scorecard can change their business processes. The management of the businesses can see the difference of the time they were not using such technology. With the establishment of fulfilling the aims and objectives of the study, this study will be helpful for other researchers who may be focusing on the way determine the effect of balanced scorecard to modern business organizations. Such data will hopefully be helpful for researchers in establishing their own means of conducting their study. The notable significance of this study is the possibility that it may be able to use the findings for the other studies that may wish to analyze the factors for the success or demise of a particular study.

The methods that this study will take must also be credible and help researchers in knowing how to look for particular information and know how to analyze them. It is through this that researchers will then be able to find out how they will be able to focus on their particular investigation and also know the possible methods that they may choose

conduct their study. Thus, another significance of this study is to serve as a guide for researches that focus on the analysis of the success of certain corporations as they venture into internationalization, and especially focus on the possible factors that may have affected these companies' success or downfall.

1.8 Limitations of Study

The study or research is done in a general insurance sales company and the samples are taken are random samples and the results will be random based on the specification and attributes on the questionnaires. It covers for performance management for a sales company which will be a target based performance plus the self development and team orientation of the company. Analysis is done through a graph which will be based on random samples. This will not be able to apply to certain industries which have different or more specific attributes.

Before analyzing the data through the graph, data collection will be done or the random samples will be collected using the questionnaires. Questionnaires will be used as a tool to evaluate the performance management system in this insurance company to find out the respond or the feedback of the employees on the performance management system in this particular insurance company. The questionnaires have several advantages and the weaknesses in it. The questionnaires used for this research will be purely confidential and it is for academic purpose. The questionnaires normally permit anonymity. It is usually argued that anonymity increases the rate of response and may increase the likelihood that responses reflect genuinely held opinions. Often, questionnaires are designed so that answers to questions are scored and scores summed to obtain an overall measure of the

attitudes and opinions of the respondent. It can address a large number of issues and questions of concern in a relatively efficient way, with the possibility of a high response rate. However the questionnaires have its downside as it may be difficult to obtain a good response rate. Often there is no strong motivation for respondents to respond. Questionnaires are complex instruments and, if badly designed, can be misleading. They are an unsuitable method of evaluation if probing is required and normally there is usually no real possibility for follow-up on answers. Quality of data is probably not as high as with alternative methods of data collection, such as personal interviewing and they can be misused by trying to read too much into questionnaire results. To avoid all this, there will be pretest questionnaires given to ensure the validity and the quality of data gathered is worthwhile for evaluation. Basically this data that will be collected through questionnaires are purely confidential for academic purpose which was clearly mentioned in the cover letter of the survey. This was to ensure the results of the survey are confidential and it is only used for the research purpose only. There were limited time involve to do the survey but able to manage it by getting the survey participants to do it during their free time at work. Basically by having trusts on respondents are instilling to provide an honesty and truthful answer to get a good evaluation for this research.

Interview that is been used will able to provide details of the performance management system but unable to do any analysis on the feedback of the respondents. More time will be taken for the interview as appointment has to be made. The interviewee has to be available for the interview and able to provide information that is needed for this research. Plus the interviewee has to feel comfortable during the interview so he or she will be relaxed during the interview. The biggest constraint is to find a most suitable available time for the

interviewee for the interview because it takes the interviewee personal time for the interview. This was easily been overcome by getting the appointment earlier and preparing interview questions that are straight to the point. More accurate, detailed and correct information is needed for this research and this can be obtained by interviewing one of the managers from the top level management.

1.9 Performance Management (PM) Definition

Most companies do practice performance management to evaluate their employees. In actual case, do we know what performance management is? Performance management is the process of directing and supporting employees to work as effectively and efficiently as possible in line with the needs of the organization. Performance Management includes activities to ensure that goals are consistently being met in an effective and efficient manner. It focuses on the performance of the organization, department, and process of the development of a product or delivers a service, employees and many more. According to Dr Aubrey Daniels in the late 1970s, the performance management is a broad term coined by her to describe a technology for managing behavior and results, two critical elements of what is known as performance. Performance management as a lever for organizational change is a signal for what is important for the organization. It actually provides a key space for dialogue in the organization and it focuses on a new behavior. In short, performance management is the process of creating a work environment or setting in which people are enable to perform to the best of their abilities. Performance management is a whole work system that begins when a job is defined as needed and it ends when an employee leaves the organization.

1.10 Why Performance Management is Important?

Performance management matters to everyone who wants to see local communities to be served better by councils and their partners. Managers can use it to ensure that services are improving and are more efficient. Councilors can use it to ensure that policy decisions are being carried out and citizens are being well served. Increasingly, citizens and partners can use aspects of performance management, such as public reporting, to hold the council to account. Performance management is about good management, ensuring that your community, organization and team goals are achieved. It helps to prioritize what gets done and ensure there are sufficient resources to do it. It also ensure local authorities to provide value for money, motivate and manage staff, identify and rectify poor performance at an early stage, learn from past performance and improve future performance to increase user and public satisfaction. Government sees performance management as an essential tool for achieving local and national priorities. It is also a way to demonstrate that councils are able to achieve important objectives, with less government control.

Under Best Value, local authorities have a statutory duty to review services, to secure continuous improvements and report results to local people. This responsibility continues in principle but there have been changes to the specific practice. Each change to government policy has put pressure on performance management systems to work more effectively. You can find further information on the national framework [here](#). Managing performance in partnerships has become more important too. Government sees partnerships as a way of achieving better and more joined-up services. Local strategic partnerships (LSPs) enable public sector agencies, businesses, the voluntary sector and wider community interest groups to meet and agree priority improvements in their communities. The complex demands of delivering services through partnership also mean that local

authorities need to adapt their approach to performance management to reflect the contributions of a number of partner agencies, while continuing to demonstrate progress towards agreed targets and objectives.

Performance management is important as it indicates how well an organization is performing against its aims and objectives. Furthermore, good performance management helps identify what policies and processes work and why they work. Making the best use of available data and knowledge is critical to improve the performance of government as a whole. Performance management is a key to effective management, including business planning, monitoring and evaluation. Furthermore, externally, performance management allows effective accountability. With appropriate information, parliament, members of the public and other stakeholders are able to exert pressure for improvements and can better understand the issues involved.

1.11 Objectives of Performance Management

The overall aim of performance management is to establish a high performance culture in which individuals and teams take responsibility for the continuous improvement of business processes and for their own skills and contributions within a framework provided by effective leadership. Its key purpose is to focus people on doing the right things by achieving goal clarity.

Specifically, performance management is about aligning individual objectives to organizational objectives and ensuring that individuals uphold corporate core values. It provides for expectations to be defined and agreed in terms of role responsibilities and accountabilities (expected to do), skills (expected to have) and behaviors (expected to be). The aim is to develop the capacity of people to meet and exceed expectations and to

achieve their full potential to the benefit of themselves and the organization. Importantly, performance management ensures that the support and guidance people need to develop and improve are readily available.

Below are the aims or objectives of performance management as expressed by a variety of organizations:

- Empowering, motivating and rewarding employees to do their best.
- Focusing employees tasks on the right things and doing them right. Aligning everyone's individual goals to the goals of the organization.
- Proactively managing and resourcing performance against agreed accountabilities and objectives.
- Linking job performance to the achievement of the council's medium term corporate strategy and service plans.
- The alignment of individual objectives with team, department or divisional and corporate plans. The presentation of objectives with clear defined goals or targets using measures, both soft and numeric. The monitoring of performance and tasking of continuous action as required.

- All individuals being clear about what they need to achieve and how that contributes to the overall success of the organization, receiving regular, fair, accurate feedback and coaching to stretch and motivate them to achieve their best.
- Systematic approach to organizational performance aligning individual accountabilities to organizational targets and activity.
- The process and behaviors by which managers manage the performance of their people to deliver a high-achieving organization.
- Maximizing the potential of individuals and teams to benefit themselves and the organization, focusing on achievement of their objectives.

1.12 Characteristics of Performance Management

Performance management is a planned process of which the primary elements are agreement, measurement, feedback, positive reinforcement and dialogue. It is concerned with measuring outputs in the shape of delivered performance compared with expectations expressed as objectives. In this respect, it focuses on targets, standards and performance measures or indicators. It is based on the agreement of role requirements, objectives and performance improvement and personal development plans. It provides the setting for ongoing dialogues about performance, which involves the joint and continuing review of achievements against objectives, requirements and plans but it is also concerned with inputs and values. The inputs are the knowledge, skills and behaviors required to produce the expected results. Developmental needs are identified by defining these requirements and

assessing the extent to which the expected levels of performance have been achieved through the effective use of knowledge and skills and through appropriate behavior that upholds core values.

Performance management is a continuous and flexible process that involves managers and whom they manage act as partners within a framework that sets out how they can best work together to achieve the required results. It is based on the principle of management by contract and agreement rather than management by command. It relies on consensus and cooperation rather than control or coercion.

Performance management focuses on future performance planning and improvement rather than on retrospective performance appraisal. It functions as a continuous and evolutionary process, in which performance improves over time, provides the basis for regular and frequent dialogues between managers and individuals about performance and development needs. It is mainly concerned with individual performance but it can also be applied to teams. The focus is on development, although performance management is an essential part of the reward system through the provision of feedback and recognition and the identification of opportunities for growth. It may be associated with performance or contribution-related pay but its developmental aspects are much more important.

Performance management will look different in different places, but effective organizations share some common characteristics. These are:

- real-time, regular and robust performance data
- can-do culture inspired by strong leadership
- agreed lines of individual accountability

- clear performance management review, combining challenge and support
- transparent set of performance rewards and sanction.

Effective performance management requires:

- systematically deciding and communicating what needs to be done (aims, objectives, priorities and targets)
- a plan for ensuring that it happens (improvement, action or service plans)
- some means of assessing if this has been achieved (performance measures)
- information reaching the right people at the right time (performance reporting) so decisions are made and actions taken.

All aspects of management overlap. For example, leadership is not in itself performance management but is essential to its effective use. To work well, it must be coordinated with other systems, such as financial management (directing resources to areas needing improvement or strategic priorities) and risk management (managing risks to avoid failure).

These plans and actions fit within a framework that we summarize as 'plan, do, review, revise'. Through this framework, learning can be harnessed in a continuous cycle of improvement. Later, we will look into the performance measurement framework.

1.13 Concerns of Performance Management

There are certain areas which contribute to the main concerns of performance management. Firstly the concern is with the outputs, outcomes, process and inputs. Performance management is concerned with the outputs which are the achievement of

results and the outcomes which relate the impact made on performance. More over it is also concerned with the processes required to achieve these results(competencies) and the inputs in terms of capabilities (knowledge, skill and competence) expected from the teams and individuals involved. Planning is a core element in performance management and it is one of the main concerns of performance management. It is essential to plan ahead to achieve future success and this means defining expectations expressed as objectives and in business plans.

Next area which is a concern of performance management is measurement and review. Measurement and review is essential in performance management to evaluate each employee and to monitor their performance. Performance management is concerned with the measurement of results and with the progress review towards achieving objectives as a basis for action. After measurement and review, the next concern of performance management is continuous improvement. Concern with continuous improvement is based on the belief that continually striving to reach higher and higher standards in every part of the organization will provide a series of incremental gains that will build superior performance. This means clarifying what organizational, team and individual effectiveness look like and taking steps to ensure that those defined levels of effectiveness are achieved. According to Armstrong and Murlis, “establishing a culture in which managers, individuals and groups take responsibility for the continuous improvement of business processes and of their own skills, competencies and contribution”.

Performance management is also concern with the continuous development. Performance management is concerned with creating a culture in which organizational and individual learning and development is a continuous process. It provides means for the

integration of learning and work so that everyone learns from successes and challenges inherent in their day to day activities.

Another main concern of performance management is communication. This is done by creating a climate in which a continuing dialogue between managers and the members of their teams takes place to define expectations and share information on the organization's mission, values and objectives, According to Armstrong and Murlis, this are establishes mutual understanding of what is to be achieved and a framework for managing and developing people to ensure that it will be achieved. Another concern is for the stakeholders. Performance management is concerned with satisfying the needs and expectations of all the organization's stakeholders which are the owners, management, employees, customers, suppliers and the general public. In particular, employees are treated as partners in the enterprise whose interests are respected, whose opinions are sought and listened to and who are encouraged to contribute to the formulation of objectives and plans for their team and for themselves. Performance management should respect the needs of individuals and teams as well as those of the organization, recognizing that they will not necessarily coincide.

The final concern is for the fairness and transparency. There are four ethical principles that should govern the operation of the performance management process. This has been suggested by Winstanley and Stuart-Smith. One of the principles is respect for the individual. We got to respect their goals, needs and their opinions on during the performance management review. Mutual respect has to be there when the reviewer is appraising the appraisee and vice versa. Each other has to respect and understand their own views on opinions on the performance management. The performance management

procedural has to be fair because performance management determines a person's career and their rewards example performance bonus and salary increment will solely based on the performance management. Therefore it has to be fairly reviewed to give a fair contribution to the employees. Each performance management has to be transparent. Everything has to be written in black and white and to be documented. All measurements and reviews have to be transparent to all employees all time. This will justify a good decision making and the decision is been made more transparent.

1.14 Understanding Performance Management

There are five issues that need to be considered to obtain a full understanding of performance management. Below will be the explanation of the issues. One of the issues is the meaning of performance. Performance is often defined simply in output terms which are the achievement of quantified objectives but performance is a matter not only of what people achieve but how they achieve it. The Oxford English Dictionary confirms the definition of performance which is the accomplishment, execution, carrying out, working out of anything ordered or undertaken. High performance results from appropriate behavior especially discretionary behavior and the effective use of the required knowledge, skills and competencies. Performance management must examine how results are attained because this provides the information necessary to consider what needs to be done to improve those results.

Brumbach expressed that performance means both behavior and results. Behaviors emanate from the performer and transform performance from abstraction to action. It is not just the instrument for results, behaviors are also outcomes in their own right, the product mental and physical effort applied to performance leads to the conclusion that when

managing performance both inputs(behaviors) and outputs(results) need to be considered. It is not a question of simply considering the achievement of targets which used to happen in management by objectives schemes. Competence factors need to be included in the process. This is called 'mixed model' of performance management which covers the achievement of expected levels of competence as well as objective setting and review.

The second issue is the performance management and values. Performance is about upholding the values of the organization. "Living the values" is an approach to which much importance is attached at Standard Chartered Bank. This is an aspect of behavior but it focuses on what people do to realize core values such as concern for quality, concern for people, concern for equal opportunity and operating ethically. It means converting espoused values into values in use: ensuring that the rhetoric becomes reality.

Another issue is the meaning of alignment. One of the most fundamental purposes of performance management is to align individual and organizational objectives. This means that everything people do at work leads to outcomes that further the achievement of organizational goals. According to Fletcher, this statement means the real concept of performance management is associated with an approach to create a shared vision of the purpose and aims of the organization, helping each employee understand and recognize their part and manage and enhance the performance of both individuals and the organization. Alignment can be attained by a cascading process so that objectives flow down from the top and at each level team or individual objectives are defined in the light of higher-level goals but it should also be a bottom-up process, individuals and teams being given the opportunity to formulate their own goals within the framework provided by the defined overall purpose, strategy and values of the organization. Objectives should be

agreed, not set, and this agreement should be reached through the open dialogues that take place between managers and individuals throughout the year. In other words, this needs to be seen as a partnership in which responsibility is shared and mutual expectations are defined.

The fourth issue is managing expectations. Performance management is essentially about the management of expectations. It creates a shared understanding of what is required to improve performance and how this will be achieved by clarifying and agreeing what people are expected to do and how they are expected to behave and uses these agreements as the basis for measurement, review and the preparation of plans for performance improvement and development.

The final issue is performance management and discretionary behavior. Encouragement of productive discretionary behavior is essential in performance management. According to Purcell and his team at Bath University School of Management, discretionary behavior refers to the choices that people make about how they carry out their work and the amount of effort, care, innovation and productive behavior they display. It is the difference between people just doing a job and people doing a great job. While researching the relationship between HR practice and business performance, Purcell and his team noted that the experiences of success seen in performance outcomes help reinforce positive attitudes.

1.15 The Process of Performance Management

Effective performance management relies on systems and people working together to make sure the right things happen. The hard systems, processes and data, are inseparable from the soft aspects such as culture, leadership and learning; one does not work without the other. A system does not stand apart from day-to-day management. Effective performance management arrangements can help to integrate planning, review, financial management and improvement systems to enable policy makers and managers to make informed decisions and improve services.

Performance management should be regarded as a flexible process not as a 'system'. The use of the term 'system' implies a rigid, standardized and bureaucratic approach, which is inconsistent with the concept of performance management as a flexible and evolutionary process that is applied by managers working with their teams in accordance with the circumstances in which they operate. As such, it involves managers and those whom they manage acting as partners, but within a framework that sets out on how they can best work together. This framework has to reduce the degree to which performance management is a top-down affair and it has to be congruent with the way in which the organization functions. Performance management has to fit process-based and flexible organizations. In these circumstances, which are increasingly the norm, it has to replace the type of appraisal system that only fits a hierarchical and bureaucratic organization.

1.16 Performance Management Cycle

The revisions made in 1995 to the Government on wide performance appraisal and awards regulations support sound management principles. Great care was taken to ensure that the requirements on those regulations establish would complement and not conflict with the kinds of activities and actions practiced in effective organizations as a matter of course.

1.16.1 Planning

In an effective organization, work is planned out in advance. Planning means is setting performance expectations and goals for groups and individuals to channel their efforts toward achieving organizational objectives. Getting employees involved in the planning process will help them understand the goals of the organization, what needs to be done, why it needs to be done, and how well it should be done.

1.16.2 Monitoring

In an effective organization, assignments and projects are monitored continually. Monitoring well means consistently measuring performance and providing ongoing feedback to employees and work groups on their progress toward reaching their goals.

Ongoing monitoring provides the opportunity to check how well employees are meeting predetermined standards and to make changes to unrealistic or problematic standards. By monitoring continually, unacceptable performance can be identified at any time during the appraisal period and assistance is provided to address such performance rather than waiting until the end of the period when summary rating levels are assigned.

1.16.3 Developing

In an effective organization, employee developmental needs are evaluated and addressed. Developing in this instance means increasing the capacity to perform through training, giving assignments that introduce new skills or higher levels of responsibility, improving work processes, or other methods. Providing employees with training and developmental opportunities encourages good performance, strengthens job-related skills and competencies, and helps employees keep up with changes in the workplace, such as the introduction of new technology. Carrying out the processes of performance management provides an excellent opportunity to identify developmental needs. During planning and monitoring of work, deficiencies in performance become evident and can be addressed. Areas for improving good performance also stand out, and action can be taken to help successful employees improve even further.

1.16.4 Rating

From time to time, organizations find it useful to summarize employee performance. This can be helpful for looking at and comparing performance over time or among various employees. Organizations need to know who their best performers are.

Rating means evaluating employee or group performance against the elements and standards in an employee's performance plan and assigning a summary rating of record. The rating of record is assigned according to procedures included in the organization's appraisal program. It is based on work performed during an entire appraisal period. The rating of record has a bearing on various other personnel actions, such as granting within-grade pay increases and determining additional retention service credit in a reduction in force.

1.16.5 Rewarding

In an effective organization, rewards are used well. Rewarding means recognizing employees, individually and as members of groups, for their performance and acknowledging their contributions to the agency's mission.

Recognition is an ongoing, natural part of day-to-day experience. A lot of the actions that reward good performance — like saying "Thank you" — don't require a specific regulatory authority. Nonetheless, awards regulations provide a broad range of rewards or incentives such as cash, time off, and many nonmonetary items. The Performance, Management, Measurement and Information approach performance management is based on the plan-do-review-revise cycle.

Plan understands current performance, prioritizing what needs to be done, identifying actions that needs to be taken and planning for improvement. Second is **do** which is ensuring that the proper systems and processes are in place to support improvement, take action and manage risk – and helping people achieve better performance. Next is **review** which understands the impact of the actions, reviewing performance, speaking to users and stakeholders about their experience of performance and getting a better picture of changing circumstances. The final one is **revise** which uses the lessons learned from review to change the plans on what needed to be done so that future action is more efficient, effective and appropriate.

Major strategic reviews and revision may happen only every few years, although the cycle may occur every month at a more detailed level. On an informal level, managers may set tasks, observe performance and give helpful feedback from day to day. The plan do review revise cycle of performance management diagram is illustrated in (APPENDIX D).

The different levels in this cycle need to be integrated across various organizational levels and with partners.

1.17 The Performance Management Sequence

The sequence of processes carried out in this cycle and the likely outcomes. The figure is in illustrated in APPENDIX D.

1.18 Performance Management Activities

The main activities in performance management are:

Role definition – which the key result areas and competence requirements are agreed.

The performance agreement – which defines expectations on what individuals have to achieve in the form of objectives, how performance will be measured and the competences needed to deliver the required results.

The performance improvement plan – which spells out what individuals, should do to improve their performance when this is necessary.

The personal development plan – which sets out the actions people, should take to develop their knowledge and skills and increase their levels of competence.

Managing Performance throughout the year – when action is taken to implement the performance agreement and performance improvement and personal development plans as individuals carry on with their day to day work and their planned learning activities. It includes a continuous process of providing feedback on performance, conducting informal

progress reviews, updated objectives and where necessary dealing with performance problems.

Performance review is a formal evaluation stage when a review of performance over a period takes place covering achievements, progress and problems as the basis for the next part of the continuous cycle. It is a revised performance agreement and performance improvement and personal development plans. It can also lead to performance ratings.

1.19 Benefits of performance management

Performance management does benefit either the employee or manager for various reasons. Performance management helps employee to plan their career development. It is an opportunity for discussion of career objectives and creation of a strategy designed to maximize career potential. It also helps to provide career counseling for employees that need it. It helps in succession planning and assesses and develops individual abilities. This helps to assess the training needs for the employees. Furthermore, it provides an objective basis on which to base decisions about training and promotion. Another benefit is feedback has been encouraged in both directions. For example, there are employees are encouraged to prepare ratings of their supervisors. Constructive feedback to the individual will either reinforces performance strengths or provides the opportunity to discuss resolution of performance deficiencies. Plus, it provides a structured format for the discussion of performance issues on a regular basis.

With performance management, administrative can able to use it to determine salary increment for the staffs and can view the performance management for promotion, retention or termination. Basically, it is can be viewed as a source of evidence. More over,

it recognizes the individual performance for rewards to be given. It also can be a source of identification of poor performers and this can be a tool or a starter to improve them. Performance management provides a performance history which is not dependent upon human memory and which may be useful in the full range of personnel decisions including compensation decision-making and also to review past and present performance to identify the strengths and weaknesses for each individual. Basically it gives clarity of the organizational goals so that the employee is aware of the organizational expectations. It provides an opportunity to view one's performance in the context of broader organizational goals. It helps to assess the prospect and potential candidate for future promotion. Basically, performance management can be used to set the objectives for the next period so the members' organization is aware what are they working towards for and what needed to be expected in the future. With performance management, it creates a benchmark of the job standards. It provides an opportunity for clearer articulation and definition of performance expectations

Last but not least, the documentation used for performance management helps Human Resource (HR) to make documentation decisions and help to meet legal requirements of the company as well comply to rules and regulations stated in the Labor Law.

1.20 Assessing Performance

Performance management includes some form of assessment of what has been achieved to provide the basis for performance agreements and development plans, forecasts of potential and career plans. In addition, a performance management incorporates a rating

or other means of summing up performance to encapsulate views about the level of performance reached and if required inform performance or contribution related pay decisions.

1.20.1 Factors Affecting Assessments

Assessments required the ability to judge performance and good judgment is a matter of using clear standards, considering only relevant evidence, combining probabilities in their correct weight and avoiding projection which is ascribing to other people one's own faults.

Different managers will assess the same people very differently unless with difficulty, a successful attempt to moderate their views is made. This is because managers assessing the same people will tend to assess them against different standards. Managers may jump to conclusions or make snap judgments if they are just required to appraise and rate people rather than to conduct a proper analysis of performance. The 'halo' or 'horns' can apply when manager is aware of some prominent or recent example of good or poor performance and assumes from this that all aspects of the individuals performance are good or bad.

Other problems include poor perception which is relying on partial data and noticing only things one wants to see and lastly poor interpretation which putting one's down, possibly biased, slant on information. According to Michael O'Malley, the latter can lead to Type I and Type II errors. A Type I error occurs when the conclusion is that there are no differences in employees performance when there are. Conversely, Type II error is concluding that there are differences when in fact there are none.

Overriding all these problems is the likelihood that managers and employees are unsure what good or poor performance looks like and cannot recognize either when they meet them. The notion of performance is a vague one. Is it simply what people produce (output) or how they produce it? Or it can be both? It is, in fact, both but not everyone recognizes that and this results in suspect assessments. There are few ways to overcome these problems. It is necessary to ensure that the concept of performance and what constitutes good and not so good performance is understood by all concerned, managers and employees alike. It also encourages managers to define and agree standard measures of effectiveness beforehand with those concerned. Another way is to encourage and train people to avoid jumping to conclusions too quickly by consciously suspending judgment until all relevant data available have been examined. It provides managers with practice in exercising judgments that enable them to find out for themselves their weaknesses and thus improve their techniques.

1.20.2 Methods of Assessment

There are few ways of assessing performance. One of them is overall analysis of performance. It is sometimes assumed that the only way to assess performance is by a rating system but organizations are increasingly taking a different view. According to the CIPD survey 2004, only 59% of the respondents used overall ratings. This is significantly less compared to the year of 1992, when the proportion of organizations ratings was 78%. Those who do not believe in ratings argue that performance management is essentially about analyzing rather than assessing performance. The aim is to reach agreement about future action rather than to produce a summarized and potentially superficial judgment. In practice, an overall analysis is a form of assessment as it will reveal strengths and possibly

weaknesses which indicate where development can usefully take place. For example, the BP Amoco organization expect managers to reach an understanding with their employees as a result of the analysis, which will ensure that the latter will appreciate how well or not so well they are doing.

Businesses with a performance or contribution related pay scheme may disagree with this overall approach on the grounds that ratings are necessary to inform pay decisions. According to the e-reward 2004 contingent pay survey stated that the majority which is 73% of the respondents depended on performance ratings to indicate the size of the pay increase or whether there was to be an increase at all. Even those without such pay schemes like to follow the traditional path of summarizing performance by ratings 'for the record' although they are not always clear about what to do with the record.

Another method is a narrative assessment which is simply a written summary of views about the level of performance achieved. This at least ensures that managers have to collect their thoughts together and put them down on paper but different people will consider different aspects of performance and there will be no consistency in the criteria used for assessment.

Traditionally this was a top-down process. Managers in effect told their staff what they thought about them or worse still record their judgments without informing their staff. This autocratic approach may be modified by giving individuals the opportunity to comment on their manager's judgements or, better still the summary could be jointly prepared and agreed.

The danger is that managers will tend to produce bland, generalized and meaningless assessments that provide little or no guidance on any action required. A study by Kay Rowe on six schemes using narrative assessments found that 'a few suggested

careful thought and a conscientious effort to say something meaningful but the vast majority were remarkable for their neutrality. For example, “glib, generalized, enigmatic statements abounded”, such statements means “a loyal, conscientious and hard working employee”. Such a statement may well have been true but it is not very revealing.

Two ways have been used to alleviate this problem. The first traditional method was to issue guidelines that set out the points to be covered. These asked managers to comment on a number of defined characteristics for example industry and application, loyalty and integrity, cooperation, accuracy and reliability, knowledge of work and use of initiative. When assessing a characteristic such as industry and application, managers might have been asked to: ‘Consider the individual’s application to work and the enthusiasm with which tasks were undertaken.’ In practice, however guidelines of this type were so vague that comments were uninformative because it was mainly about generalized characteristics. This approach is now therefore largely discredited although it lingers on in some old-established schemes.

The second method is to ask for comments on the extent to which agreed objectives have been achieved, to which may be added comments on behavior against competency framework headings. At least this is related to standards against which judgments are made but the efficacy of doing it is questionable. The only reason for including a narrative assessment is to point the way to future action and this will not be achieved by simply putting a few comments down on paper. It is better to provide for action plans to emerge from the systematic analysis of performance in terms of outcomes and behaviors that should take place during the course of a review meeting.

The most common method is rating. Performance management schemes include some form of rating. This indicates the quality of performance or competence achieved or

displayed by an employee by selecting the level on a scale that most closely corresponds with the view of the assessor on how well the individual has been doing. A rating scale is supposed to assist in making judgments and it enables those judgments to be categorized to inform performance or contribution pay decisions or simply to produce an instant summary for the record on how well or not so well someone is doing.

1.20.2.1 Types of Rating Scales

Rating scales can be defined alphabetically (a, b, c, etc) or numerically (1, 2, 3 etc).

The alphabetically or numerical scale points may be described adjectivally, for example:

1 = Excellent

2 = Good

3 = Satisfactory or Acceptable.

4 = Unsatisfactory

Scale levels may be described verbally as below:

Exceptional Performance – Exceeds expectations and consistently makes an outstanding contribution that significantly extends the impact and influence of the role.

Well-balanced performance – Meets objectives and requirements of the role and consistently performs in a thoroughly proficient manner.

Barely effective performance – Does not meet all objectives or requirements of the role and significant performance improvements are needed.

Unacceptable performance – Fails to meet most objectives or requirements of the role. Shows a lack of commitment to performance improvement or a lack of ability which has been discussed prior to the performance review.

1.20.2.2. Positive-negative definitions

Traditionally definitions have regressed downwards from a highly positive description e.g.: ‘exceptional’ to a negative definition eg: ‘unsatisfactory’. Examples are as below:

- 1 – Outstanding performance in all respects
- 2 – Superior performance, significantly above normal job requirements
- 3 – Good all-round performance that meets the normal requirements of the job.
- 4 – Performance not fully up to requirements. Clear weaknesses requiring improvement have been identified
- 5 – Unacceptable; constant guidance is required and performance of many aspects of the job is well below a reasonable standard.

1.20.2.3. Positive Definitions

An alternative and increasingly popular approach is to have a rating scale that provides positive reinforcement or at least emphasizes the need for improvement at lower levels. This is in line with a culture of continuous improvement. The example given below emphasizes the positive and improvable nature of individual performance:

Very effective – Meet all the objectives of the job. Exceeds required standards and consistently performs in a thoroughly proficient manner beyond normal expectations.

Effective – Achieves required objectives and standards of performance and meets the normal expectations of the role.

Developing – A contribution that is stronger in some aspects of the job than others, where most objectives are met but where performance improvements should still take place.

Basic – A contribution that indicates that there is considerable room for improvement in several definable areas.

Positive definitions aim to avoid the use of terminology for middle ranking but entirely acceptable performers such as ‘satisfactory’ or ‘competent’ that seems to be damning people with faint praise.

Some organizations use the term ‘improvable’ for the ‘basic’ category on this list. Others have included ‘learner or achiever’ or ‘unproven or too soon to tell’ categories for new entrants to a grade for whom it is too early to give a realistic assessment.

This scale deliberately avoids including an ‘unacceptable’ rating or its equivalent on the grounds that if someone’s performance is totally unacceptable and unimprovable this should have been identified during the continuous process of performance management and corrective action initiated at the time. This is not an action that can be delayed for several months until the next review when a negative formal rating is given, which may be too demotivating or too late. If action at the time fails to remedy the problem the employee may be dealt with under a capability procedure and the normal performance reviews to assess the extent to which the requirements set out in the informal or formal warnings have been

met. Note as well that in order to dispel any unfortunate association with other systems such as school reports; this ‘positive’ scale does not include numerical ratings.

1.20.2.4. Number of rating levels

There is a choice of the number of levels; there can be three, four, five or even six levels. Each level from three to five is described as below.

1) Three-level scales

Three level scales can be constructed by reference to such terms as:

- **Overall achievement** – Exceptional, acceptable and not fully acceptable
- **Achievement of objectives** – Exceeds, meets and fails to meet
- **Capability or Competence** – Highly capable or competent, fully capable or competent and less than fully capable or competent.
- **Spread of ability** – Above average, average, below average (not a desirable approach because it ‘labels’ people).

❖ Fulfilling expectations

In order to fulfill the expectations agreed for the role, employee and the manager will agree at the review whether the employee have worked with others and developed themselves, followed through processes and made improvements, met the needs of internal or external customers and achieved key financial and business results.

The expectations are stretching and demanding and if the employees have achieved them, that means they have done well and made a full and balanced contribution that has delivered the requirements of the business. The majority of the staff achieves what is been expected and currently assessed at this level; this is expected to be continued in future.

❖ **Exceeding expectations**

People who exceed the expectations agreed for their role will be exceptional for two reasons which are expectations of all of us are generally stretching and rise over time, so to have exceeded them denotes an approach that has added value beyond these normal high standards and performance is assessed not only in the job but also compared to colleagues doing similar jobs, so a clearly differentiated contribution will have been made. People who exceed expectations can therefore expect higher pay awards and faster salary progression.

❖ **Not fulfilling expectations**

Employees who do not fulfill expectations will be counseled and supported to improve their performance but if, in the end, their contribution has not met the requirements of the business they can expect to receive a smaller pay rise or no pay rise at all.

2) Four-level scales

Four level scales are sometimes used, often with positive definitions as in the example given above. They provide for finer distinctions than a three level scale while helping to avoid the problem inherent in five level scales of rating drift (unwillingness to use the middle or lower categories).

3) Five-level scales

Five level scales are the most common used. Typically, they provide for two superior performance levels, a fully satisfactory level and two shades of less than capable performance. The rationale is that raters prefer this degree of fineness in performance definition and can easily recognize the middle grade and distinguish those who fall into higher or lower categories. It is also in accord with the typical way in which the normal curve of distribution is expressed where the middle category includes 60% of the population, the next higher or lower categories each comprise 15% of the population and the remaining 10% is distributed equally between the highest and lowest category. This normal curve was originally applied to the distribution of intelligence in the form of IQs (intelligence quotients). It was believed that general ability is also distributed in the same pattern. However, this is a highly questionable assumption, which has not been substantiated by research.

When confronted with a five level scale, raters can be tempted to over concentrate on the middle rating and avoid discriminating sufficiently between superior and inferior performers. Alternatively, five level scales can lead to 'rating drift' which is a tendency to push ratings into higher categories. This can only be avoided by carefully wording the level descriptions to ensure that the middle category is used appropriately and by training managers in rating methodology.

1.20.3 Conclusion on the number of levels

The format used is a matter of choice and judgment. The CIPD 2004 survey found that the majority of organizations had five levels. Some organizations are settling for three levels but there is no evidence that any single approach is clearly much superior to another,

although the greater the number of levels the more is being asked of managers on the shape of discriminatory judgment. It does however seem to be preferable for level definitions to be positive rather than negative and for them to provide as much guidance as possible on the choice of ratings. It is equally important to ensure that level definitions are compatible with the culture of the organization and that close attention is given ensuring that managers use them as consistently as possible.

1.20.4 The rationale for rating

There are four arguments for rating:

- 1) It recognizes the fact that we all form an overall view of the performance of the people who work for the organization and it makes sense to express that view explicitly against a framework of reference rather than hiding it. Managers can thus be held accountable for the ratings they make and required to justify them.
- 2) It is useful to sum up judgments about people indicating who are the exceptional performers or underperformers and who are the reliable core performers so that some action can be taken.
- 3) There has to be a method that relates the size of an award to the level of individual achievement. However, many organizations with contribution or performance pay do not include ratings as part of the performance management process.
- 4) It conveys a clear message to people on how they are doing and can motivate them to improve their performance better.

1.20.5 Problem with Rating

Ratings are largely subjective and it is difficult to achieve consistency between the ratings given by different managers. Subjectivity can increase due to the notion of performance is often unclear. Even if objectivity is achieved, to sum up the total performance of a person with a single rating is oversimplification of what may be a complex set of factors that influence the employees performance. After a detailed discussion of strengths and weaknesses suggests that the rating will be a superficial and arbitrary judgment. To label people as 'average' or 'below average' or any equivalent terms are used, is both demeaning and demotivating.

The whole performance review meeting may be dominated by the fact that it will end with a rating, thus severely limiting the forward looking and developmental focus of the meeting, which is all important. This is particularly the case if the rating governs performance or contributes to pay increases.

1.20.6 Achieve consistency in ratings

The problem with rating scales is that it is very difficult. If no consistent approach is adopted by managers who are responsible for rating and this means that performance or contribution pay decisions can be suspected. It is almost inevitable that some people will be more generous than others, while others will be harder on their staff. Some managers may be inconsistent in the distribution of ratings to their staff because they are indulging in favoritism or prejudice.

Ratings can of course be monitored and challenged if their distribution is significantly out of line and computer-based systems have been introduced for this purpose.

However, many managers want to do the best for their staff, either because they genuinely believe that they are better or because they are trying to curry favor. It can be difficult in these circumstances to challenge them.

The methods available for increasing consistency are described below:

➤ **Training**

Training can take place in the form of ‘consistency’ workshops for managers who discuss how ratings can be objectively justified and test rating decisions on simulated performance review data. This can build a level of common understanding about rating levels.

➤ **Peer Reviews**

Groups of managers meet to review the pattern of each other’s ratings and challenge unusual decisions or distributions. This process of moderation or calibration is time consuming but it is possibly the best way to achieve a reasonable degree of consistency especially when the group members share some knowledge of the performers of each other’s staff as internal customers.

➤ **Monitoring**

The distribution of ratings is monitored by a central department, usually HR, which challenges any unusual patterns and identifies and questions what appear to be unwarrantable differences between departments’ ratings.

1.20.7 Conclusion on ratings

Many organizations retain ratings because they perceive that the advantages outweigh the disadvantages but those businesses that want to emphasize the developmental aspect of performance will be convinced by the objections to rating and will dispense with them altogether, relying instead on overall analysis and assessment.

1.20.8. Conclusion

Assessment is a necessary and inevitable performance management activity but it is one of the most difficult ones to get right. Attempts to use mechanistic methodologies involving ratings or rankings often prove a doubtful value.

1.21 Reviewing Performance

Performance management is a continuous process and it is necessary to have a formal review once or twice yearly. This provides a focal point for the consideration of key performance and development issues.

1.21.1 Why have performance reviews?

Reviewing performance is an inherent part of a manager role. The argument for a formal review is that it provides a focal point for the consideration of key performance, motivational and development issues. It is a means for considering for future in the light of an understanding of the past. It answers the two fundamental questions of 'Where have we got to?' and 'Where are we going?' It gives the individual members the opportunity to pause after the hurly-burly of everyday life and reflect on the key issues of personal development and performance improvement. It is a means of ensuring that two-way

communication on issues concerning work can take place and it provides the basis for future work and development plans. Formal reviews do not supplement informal or interim progress reviews but they can complement and enhance them and therefore have an important part to play in performance management. In a sense, they are stock-taking exercises that take note of what has been happening in order to plan what is going to happen. A formal review is also necessary if performance has to be rated for performance related pay purposes.

1.21.2 Objectives of performance reviews

The objectives of reviewing performance are:

Planning – to provide the basis for reformulating the performance agreement and the performance and development plans incorporated in it.

Motivation – to provide positive feedback, recognition, praise and opportunities for growth. Furthermore is clarifies expectations and to empower people by encouraging them to take control over their own performance.

Learning and development – to provide a basis for self-managed learning and the development through coaching and other learning activities of the abilities relevant to both the current role and any future role the employee may have the potential to carry out. Learning and development enable people to enlarge and enrich the range of their responsibilities and the skills they require and be rewarded accordingly. This aspect of role

development is even more important in flatter organizations where career ladders have shortened and where lateral progression is likely to be the best route forward.

Communication – to serve as two-way channel for communication about roles, expectations (objectives and competence requirements), relationships, work problems and aspirations.

Reviews can also provide the basis for assessing performance especially if ratings are required for performance or contribution related pay although there are arguments against over-mechanistic rating procedures.

1.21.3 Who should performance reviews focus on?

Many performance management and review ‘systems’ seem to focus almost exclusively on the upper and lower extremes of the performance distribution, neglecting the core of middle of the road performers on whom the organization relies to function effectively in its day to day operations and to sustains itself in future.

This is illogical because exceptional performance is unlikely to go unrecognized and very poor performance should be equally obvious. From the point of view of both motivation and retention, the majority of employees who are in the middle of the performance distribution should be given equal is not more attention.

1.21.4 On what should the performance review meeting focus?

There are two focus issues in performance review meetings: first, on the emphasis that should be placed on performance improvement as distinct from broader developmental

needs, second, on the degree to which the meeting should be forward rather than backward looking.

A single-minded focus on performance improvement at the expense of broader issues is unlikely to produce much motivation. The focus should also be on the individual's learning and development needs, bearing in mind that no one is simply being prepared for vertical movement up the hierarchy. This means helping people to widen their range of abilities (multi skilling) to enable them to meet the demands of future change and the additional activities they may be required to carry out. In this way employability both within and outside the organization can be enhanced.

Performance review meetings that are used or are perceived as being there simply to generate ratings for performance-related pay purposes will almost inevitably fail to achieve what should be regarded as their most important objectives to motivate and develop people.

The analysis of past performance is necessary for the preparation of performance and development plans for the future but the tendency to dwell on the past rather than looking to the future must be avoided if the review is going to make any positive motivational impact.

1.21.5 Criteria's

The criteria for assessing performance should be balanced between:

- Achievements in relation to objectives
- The level of knowledge and skills possessed and applied
- Behaviour in the job as it affects performance
- The degree to which behaviour upholds the core values of the organization
- Day to day effectiveness

The criteria should not be limited to a few quantified objectives as has often been the case in traditional appraisal schemes. In many cases the most important consideration will be the jobholders' day to day effectiveness in meeting the continuing performance standards associated with their key tasks. It may not be possible to agree meaningful new quantified targets for some jobs every year. Equal attention needs to be given to the behaviour that has produced the results.

1.21.6 Performance review skills

Conducting an effective performance review, especially one in which problems of underperformance have to be discussed, demands considerable skill on the part of the reviewer in areas such as giving feedback, agreeing objectives, assessing performance and development needs, planning for performance improvement and carrying on a dialogue.

One advantage of introducing an element of formality into the review process is that it highlights the skills required to carry out both formal and informal reviews and emphasizes the role of the manager as a coach. These skills come naturally to some managers. Others, probably the majority will benefit from guidance and coaching in these key aspects of their managerial roles.

1.21.7 Using Review as a Communication Channel

A well-conducted review meeting provides 'quality time' in which individuals and their managers can discuss matters affecting work and future developments. They also provide an extra channel of communication.

Properly planned review meetings allow much more time and space for productive conversation and communication than is generally available to busy managers, this is perhaps one of their most important purposes.

There should be ample scope for communication about the organization's or department's objectives and how individuals fit into the picture and the contribution they are expected to make. Information can be given on significant events and changes in the organization that will impact on the role of the department and its members.

One of the objections that can be made to this free flow information is that some of it will be confidential but the need for confidentiality is often overstated. If the feeling is conveyed to people that they cannot be trusted with confidential information it will not do much for their motivation.

The review meeting often presents a good opportunity for upward communication. This is the time to find out how people feel about their jobs, their aspirations and their relationships with their peers and their managers. The opportunity a review meeting gives people to stand back from everyday pressures and consider matters that concern them with a sense of perspective is an important benefit.

1.21.8 When Should Reviews Be Held?

The usual practice is to have an annual formal review that provide a basis for a new performance agreement and performance rating, if that is required. Some organizations hold all reviews at the same time, especially if they need a performance rating for pay purposes. The timing of the review can be linked to the corporate business or operational planning programme to ensure that teams and individuals can contribute to the formulation of departmental and ultimately corporate objectives and to provide for these team or

individual objectives to flow from those finally determined at corporate, functional and departmental levels.

There may be some scope allowed for separate business units or functions to align performance review to their own business planning cycle or to carry them out at the time most convenient to them. There is much to be said for allowing the maximum degree of flexibility in order to meet the needs of line management rather than to conform to the bureaucratic requirements of the HR department. If the formal performance review is spread over the year but the company still conducts pay reviews at the same time annually, a separate assessment for such reviews will have to be carried out.

Corporate guidelines to managers on performance management often suggest that they should hold interim formal progress reviews during the year, say once a quarter or halfway through the review year. Such reviews could be incorporated into the normal work or project review process (e.g.: the supervisory meetings held by social service departments) or they could be held at focal points as decided when preparing the performance plan.

Managers should be allowed to choose their own times for conducting such interim or informal reviews, although the importance of carrying them out and not waiting until the end of the year could be emphasized in guidance notes and training. To underline the voluntary and informal nature of such progress reviews it is best not to ask managers to complete standard review forms. They should be left to document them as they feel fit. Some organizations require a formal performance review for new starters at the end of six months or a probationary period, if that has been stipulated.

1.21.9 Evaluating Performance Reviews

There is no doubt that in spite of careful training and guidance some managers will be better at conducting performance review meetings than others. Traditionally, the personnel development had a policing role which is checking that performance appraisal forms are completed on time and filled in properly. However, this will convey nothing about the quality of the meeting or the feelings of individuals after they may have signed the form to agree with its comments but this does not reveal what they really thought about the process.

Another approach is to get manager's boss to review the form. This at least provides the individual who has been reported on with the comfort of knowing that a prejudiced report may be rejected or amended by a higher authority but it still does not solve the problem of a negative or biased.

Space on the review form can be given to individuals to comment on the review, but many will feel to do so. If the interview has been conducted in an intimidating manner, how ready are they likely to be to commit themselves to open criticism?

A more potential approach is to conduct an attitude survey asking individuals to answer questions about their review meeting. Below are examples of questions in an attitude survey on performance reviews:

- How well did your manager conduct performance review meeting?
- Are there any specific aspects of the way in which the review was conducted that could be improved?
- How did you feel at the end of it?
- How are you feeling at the moment about your job and the challenges ahead of you?

- How much help are you getting from your manager in developing your skills and abilities?

The results of the survey can be fed back anonymously to individual managers and possibly their superiors and action can be taken to provide further guidance, coaching or formal training. A general analysis of the outcome can be use to identify any common failings which can be dealt by more formal training work shops.

1.21.10 Preparing for Review Meetings

Review meetings are likely to be more effective if both parties (manager and individual) have prepared for them carefully. The extent to which detailed preparation is needed will vary according to the type of review. More care needs to be taken for a formal annual review. The preparation should be concerned with the purpose and points to be covered at the meeting, what evidence on performance the manager should get ready for the meeting and what the individual should do to be ready for any explanation on their performance strengths and weaknesses.

1.21.10.1 Purpose and points to be covered

The purpose of a review meeting should provide an opportunity for a frank discussion about the individual's performance and their learning and development needs. It gives the individual a chance to discuss her or his aspirations and any work problems. It has to focus the attention of both the individual and the manager on objectives and plans for the future (i.e. provide the basis for the next performance agreement or plan).

The things to do at a review meeting are as below:

- To discuss achievements in relation to objectives and performance or development plans.
- Assess the level of competence achieved against the headings and descriptors in the individual's role definition.
- Discuss the extent to which the individual's behavior is in accord with the organization core values
- Identify any problems in achieving agreed objectives or standards of performance
- Establish the reasons for such problems including any factors beyond the individual's control as well as those that can be attributed to the individual's behavior.
- Discuss any other problems relating to work and the individual's relationships with his or her manager, colleagues and if appropriate subordinates
- Agree on any actions required to overcome problems.
- Agree on any changes to the role profile in terms of key result areas or key tasks and competence requirements that might be required.
- Review and revise performance measures(standards) as necessary
- Draw up a personal development plan that incorporates self-managed learning activities by the individual as well as coaching, mentoring or training provided by the manager or the organization.
- Agree for a performance plan for the next review period (the performance agreement).

1.21.10.2 Preparation

The manager should initiate the main formal review meeting by letting the individual know some time in advance (two weeks or so) when it is going to take place. A period of about two uninterrupted hours should be allowed for the meeting.

The manager should discuss with the individual the purpose of the meeting and the points to be covered. The aim is to emphasize the positive nature of the process and to dispel any feelings of trepidation on the part of the individual. The manager should also suggest that the individual prepares for the meeting for any issues to discuss to be raised.

The basis preparation by managers should be the objectives, standards, competence requirements and plans that are been agreed at the last main review. Achievements should be assessed by the application of appropriate performance measures. Any other evidence of good or not so good performance should also be assembled. Reference should be made to any notes made during or following interim review meetings about the individual's performance. Changes in the individual's role since the last review should be noted. Consideration should be given to any changes in internal organization, divisional or departmental circumstances that may have affected performance and outcomes should also be noted.

1.21.10.3 Conducting a performance review meeting

- 1) Be prepared – Managers should prepare by referring to a list of agreed objectives and their notes on performance throughout the year. They should form views about the reasons for success or failure and decide where to give praise, which performance problems should be mentioned and what steps might be undertaken to overcome them. Thought should also be given to any changes that have taken place or contemplated in

the individual's role and to work on personal objectives for the next period. Individuals should also prepare in order to identify achievements and problems, and to be ready to assess their own performance at the meeting. They should also note any points they wish to raise about their work and prospects.

- 2) Work to a clear structure – the meeting should be planned to cover all the points identified during preparation. Sufficient time should be allowed for a full discussion, hurried meetings will be ineffective. An hour or two is usually necessary to get maximum value from the review.
- 3) Create the right atmosphere – a successful meeting depends on creating an informal environment in which a full, frank but friendly exchange of views can take place. It is best to start with a fairly general discussion before getting into any detail.
- 4) Provide good feedback –Feedback needs to base on factual evidence and careful thoughts should be given to what is said and how it is said so that it motivates rather than demotivate the people.
- 5) Use time productively – The reviewer should test understanding, seek information and seek proposals and support. Time should be allowed for the individual to express his or her views fully and to respond to any comments made by the manager. The meeting should take the form of a dialogue between two interested and involved parties, both of whom are seeking a positive conclusion.

- 6) Use praise – If possible managers should begin with praise for some specific achievement but this should be sincere and deserved. Praise helps people to relax and everyone needs encouragement and appreciation.
- 7) Let individuals do most of the talking – This enables them to get things off their chest and helps them to feel that they are getting a fair hearing. Use open-ended questions (i.e. questions that invite the individual to think about what to reply rather than indicating the expected answer). This is to encourage people to expand.
- 8) Invite self assessment – This is to see how things look from the individuals point of view and to provide a basis for discussion. Many people underestimate themselves. Question to be asked, for example:
- How well do you feel you have done?
 - What do you feel about your strengths?
 - What do you like most or least about your job?
 - Why do you think that project went well?
 - Why do you think you didn't meet that target?
- 9) Discuss performance, not personality – Discussions on performance should be based on factual evidence, not opinion. Always refer to actual events or behavior and to results compared with agreed performance measures. Individuals should be given plenty of scope to explain why something did or did not happen.

- 10) Encourage analysis of performance – Do not just hand out praise or blame. Analyze jointly and objectively why things went well or badly and what can be done to maintain a high standard or to avoid problems in the future.
- 11) Do not deliver unexpected criticisms – There should be no surprises. The discussion should only be concerned with events or behaviors that have been noted at the time they took place. Feedback on performance should be immediate. It should not wait until the end of the year. The purpose of the formal review is to reflect briefly on experiences during the review period and on this basis to look ahead.
- 12) Agree measurable objectives and a plan of action – The aim should be to end the review meeting on a positive note.

The steps above may sound straightforward and obvious enough but they will only function properly in a culture that supports this type of approach. Hence the importance of getting and keeping top management support is the need to take special care in developing and introducing the system and in training managers and their staff

1.21.11 Providing feedback

In systems engineering, feedback transmits information on performance from one part of a system to an earlier part of the system in order to generate corrective action or to initiate new action. In this respect at least, performance management has some of the characteristics of a system that provides feedback to people on their performance which helps them to understand how well they have been doing and how effective their behavior

has been. The aim for the feedback is to promote the understanding so that appropriate action can be taken. A positive action can be taken to make the best use of the opportunities on the feedback given.

System engineers design self-regulating systems that generate their own feedback and respond to this information of their own volition. The same principle can be applied in performance management, individuals can be encouraged to understand the performance measures that are available for them to use in order to provide their own feedback and to develop their own plans for performance improvement and development.

Such self-generated feedback is a highly desirable feature of a full performance management process but there will always be a need for managers, colleagues and sometimes internal or external advisers to provide feedback based on their own observations and understanding.

Feedback in performance management is positive in the sense that its aim is to point the way to further development and improvement, not simply to tell people where they have gone wrong (negative feedback) but feedback must report on failures as well as successes, although failings should not be dwelt on as matters for blame. Instead, they should be treated as opportunities for learning so that they are less likely to be repeated in the future.

Feedback in performance management is always based on evidence. It refers to results, events, critical incidents and significant behaviors that have affected performance in specific ways. The feedback should be based on fact, not opinion and should be presented in a way that enables individuals to recognize and accept its factual nature. Of course there will often be room for some interpretation of the facts, but such interpretations should start

from the actual situation as reported in the feedback not from the subjective views expressed by the provider of the feedback.

1.21.12 Guidelines on providing feedback

- 1) Build feedback into the job – to be effective, feedback should be built into the job or been provided within 48 hours of the activity taking place.
- 2) Provide feedback on actual events – Feedback should be provided on actual results or observed behavior. It should be backed up by evidence. It should not be based on supposition about the reason for the behavior. For example, say: “We have received a complaint from a customer that you have been rude. Would you like to comment on this?”, rather than: “You tend to be aggressive”.
- 3) Describe, don’t judge – The feedback should be presented as a description of what has happened. It should not be accompanied by a judgment. If been said as “I have been informed that you have been rude to one of our customers; we cannot tolerate that sort of behavior”. This will instantly create resistance and prejudice as an opportunity to encourage improvement.
- 4) Refer to specific behaviors – Relate all your feedback to specific items of behavior. Do not indulge in transmitting general feelings or impressions.
- 5) Ask questions – Ask questions rather than making statements. Example: “Why do you think this happened?” “On reflection, is there any other way in which you think you

could have handled the situation?”, “How do you think you should tackle this sort of situation in the future?”

- 6) Select key issues – Select key issues and restrict yourself to them. There is a limit on how much criticism anyone can take. Anything that is overdoing it, the shutters will go up and you will get nowhere.
- 7) Focus – Focus on aspects of performance the individual can improve. It is a waste of time to concentrate on areas that the individual can do little or nothing about.
- 8) Provide positive feedback – Provide feedback on the things that the individual did well in addition to areas for improvement. People are more likely work positively at improving their performance and developing their skills if they feel empowered by the process.

1.22 Improving Performance

The improvement of performance is a fundamental part of the continuous process of performance management. The aim should be the positive one of maximizing high performance, although this involves taking steps to deal with underperformance.

1.22.1 Improving team performance

A performance management approach to teamwork can be used to improve team performance as describe below:

- **Setting Objectives**

Team objectives can be concerned either with the achievement of work targets and standards or with the way in which the team operates.

- **Work Objectives**

Work objectives for teams are formulated in the same way as individual objectives. They may be related to the mission and overall objectives of the organization and the function, unit or department in which the team operates or they may be concerned with a specific project or area of activity that is not catered separately in the objectives of any one department but will be supporting the attainment of an overarching objective of the organization, the unit or the function.

The team should agree on its overall mission or purpose and then on the specific objectives that will support the accomplishment of that mission. In some cases team objectives will be completely integrated with organizational or functional or departmental objectives, depending on the nature of the team. In these circumstances the team could make a major contribution to the formulation of overall objectives and would thus play a positive and active part in team discussions.

Team objectives could be set out as targets or performance standards to attain or projects to be completed by a certain time and to an agreed standard.

- **Team working objectives**

Team working objectives could be agreed on such matters as working together, contribution of team members, decision making and getting into action.

- **Work plans**

It is important for teams to get together to create plans for achieving their agreed objectives, work plans will specify programmes' (staged as necessary), priorities, responsibilities, timetables, budgets and arrangements for monitoring performance, feedback and holding progress meetings. It can also be useful for the team to discuss its critical success factors on what must be done and how it must be done if its mission and objectives are to be attained. Teams that are closely involved in setting objectives will monitor their own performance against those objectives and take action to deal with problems without referring to a higher authority could be regarded as self-managed teams and it is for this type of team that performance management processes are most appropriate.

- **Team performance reviews**

Team performance review meetings analyze and assess feedback and control information on their joint achievements against objectives and work plans. Firstly there will be a general review of the progress of the team as a whole. Next is to review the work. The results obtained by the team and how well it has worked together. Following is the group problem-solving which is an analysis of reasons for any major problems and agreement of steps to be taken to solve them or to avoid their reoccurrence in the future. Finally is the updating of objectives and work plans which are done by reviewing new requirements and amendment and updating objectives and work plans.

1.22.2 Improving Individual Performance

According to the University of Bath People and Performance Model (Purcell and his 3 other colleagues) states that performance is a function of ability + motivation +

opportunity. In order to improve performance, focus has to be on increasing ability by recruiting people who will want to join the organization, selection by choosing the right people and developing people who want to enhance their knowledge and skills. Next focus is on increasing motivation by the provision of extrinsic and intrinsic rewards. Lastly is increasing opportunity by providing people with the opportunity to use, practice and develop their skills.

Discretionary behavior takes place when employees exercise choice on the range of tasks to be done and how they do their work, covering such aspects as effort, speed, and care, attention to quality, customer service, innovation and style of job delivery. People exercising discretionary behavior are more likely to engage in making their job bigger by taking on more responsibility and doing extra things. Employers may define the sort of everyday behavior they want but have to rely on their employees to deliver. The Bath team pointed out that “Managing performance through people means finding ways to induce employees to work better or more effectively by triggering the discretionary behavior that is required. This happens when people find their jobs satisfying, they feel motivated and they are committed to their employer in the sense of wishing to stay working for the organization in the foreseeable future”. This relates that manage by being people oriented will motivate employees to work better and increase the company’s productivity.

Much of what needs to be done to improve individual performance happens at the organizational level. It is about developing a performance culture, providing leadership, creating the right working environment. According to Jake Reynolds, a ‘growth medium’ was created by developing organizational practices that raise commitment amongst employees and ‘give employee a sense of purpose in the workplace, grant employees opportunities to act upon their commitment and offer practical support to learn’.

At the individual level, improvement in performance can also be achieved through policies and practices designed to increase learning by coaching, mentoring and self-managed learning. According to Martyn Sloman believes that the aim should be to increase ‘discretionary learning’, which required to achieve the organization’s objectives.

Line managers play a pivotal role in this by encouraging discretionary learning and supporting it through coaching and mentoring. Performance management provides a valuable platform for doing this. Essentially, the approach covers seven steps:

1. Select the goal – To establish areas for action
2. Define expectations – Targets and standards.
3. Define performance measures – the basis upon which progress to achieve the goal can be monitored.
4. Plan the improvement programme.
5. Act – to implement the improvement programme.
6. Monitor – review progress and analyze feedback to ensure the target or standard is achieved.
7. Extend the processes – continue the development programme as required.

1.22.3 Managing Underperformers

Everyone’s performance is improvable and the steps outlined above apply as much to high performers as to anyone else but special action may be required to deal with people who do not meet expectations. When managing underperformers, according to Charles Handy, which this should be about “applauding success and forgiving failure’ needs to be remembered. He suggests that mistakes should be used as an opportunity for learning,

‘something only possible if the mistake is truly forgiven because otherwise the lesson is heard as a reprimand and not as an offer of help’.

Managing underperformers is therefore a positive process, which is based on feedback throughout the year and looks forward to what can be done by individuals to overcome performance problems and importantly, how managers can provide support and help.

➤ **Five basic steps in managing underperformers**

1. **Identify and agree the problem** – Analyze the feedback and as far as possible, obtain agreement from the individual on what the shortfall has been. This takes place when individuals are aware of their targets and standards, know what performance measures will be used and either receive feedback or control information automatically or have easy access to it. They will then be in a position to measure and assess their own performance and if they are well motivated and well trained, take their own corrective actions. In other words, a self-regulating feedback mechanism exists. This is a situation that managers should endeavor to create on the grounds that prevention is better than cure.
2. **Establish the reason for the shortfall** – When seeking the reasons for any shortfalls, the manager should not crudely be trying to attach blame. The aim should be for the manager and the individual jointly to identify the facts that have contributed to the problem. It is on the basis of this factual analysis that decisions can be made on what to do about it by the individual, the manager or the two of them working together. It is necessary to identify any causes that are external to the

job and outside the control of either the manager or the individual. What needs to be determined is the reason for the problem is because the individual:

- Did not receive adequate support or guidance from his or her manager
- Did not fully understand what he or she was expected to do
- Could not do it – ability
- Did not know how to do it – skill
- Would not do it – attitude

3. **Decide and agree on the action required** - Action may be taken by the individual, the manager or both parties. This could include:

- The individual taking steps to improve skills or change behavior
- The individual changing attitudes – the challenge is that people will not change their attitudes simply because they are told to do so. They can only be helped to understand that certain changes to their behavior could be beneficial not only to the organization but also to themselves.
- The manager provides more support or guidance.
- The manager and the individual work jointly to clarify expectations.
- The manager and the individual work jointly to develop abilities and skills. This is partnership in the sense that individuals will be expected to take steps to develop

themselves but managers will provide help as required in the form of coaching, training and providing additional experience.

- Whatever action is agreed, both parties must understand how they will know that it has succeeded. Feedback arrangements can be made but individuals should be encouraged to monitor their own performance and take further action as required.
4. **Resource the action** – Provide the coaching, training, guidance, experience or facilities required to enable agreed actions to happen.
 5. **Monitor and provide feedback** – Both managers and individuals monitor performance, ensure that feedback is provided or obtained and analyzed and agree on any further actions that may be necessary.

1.23 Performance Management Roles

1.23.1 Top Managers

Top managers take the lead, set the direction, act as role models and define and act upon core values relating to performance. It is their job to convince everyone that they believe performance management plays a key role in ensuring that business goals are achieved. They must demonstrate by their behavior that performance management is indeed about managing the business. They have to spell out to line managers that their performance will only be acceptable if they take performance management seriously and use its processes to deliver better results. It is the responsibility of top managers to develop a high-performance culture which means they communicate a clear sense of mission

underpinned by values, and a culture expressing what the firm is and its relationship with its customers and employees. It states a clear line of sight exists between the strategic aims of the business and those of its departments and its staffs at all levels. They will have expectations which are defined and communicated to everyone in the shape of goals for success, performance improvements and core values. Everyone is kept informed of progress towards achieving goals and what needs to be done if performance is not up to expectations and the leadership is provided that engenders a shared belief in the importance of continuing improvement.

1.23.2 Line Managers

Front line management or leadership play a pivotal role in terms of implementing and enacting HR policies and practices since it is the front line managers that “bring policies to life”. An important consideration in designing and operating performance management is how to achieve this by gaining their commitment and ensuring that they have the skills required. The need is to fill the gap between rhetoric and reality, between what top management and HR want line managers to do and what line managers actually do. Line managers should know how to address the issues so that it can be communicated. It gains the commitment of line managers by providing leadership from the top, communicating well to their staffs. Ensure to keep it simple on the participation in performance management activities. The line managers should be able to reduce the pressure and get involve in the design and development of performance management processes to review the effectiveness of performance management. Line managers should be encouraged to believe in performance management through communities of practice by gathering of managers during which information is exchanged on good practice. They are

more likely to take notice of their peers than someone from HR but HR can still play a useful role in encouraging managers. Line managers should develop capability and improving performance of their employees.

1.23.3 Employees

Every employee from the top to the bottom of an organization is subject to performance management even if this is not necessarily a formal process. Their pay and future is affected by it and in the more formal schemes they take part in formulating performance agreements and measuring and reviewing performance. They may be asked to prepare for review meetings formally or take part in assessment schemes. They will participate in objective setting and discussing roles and competence requirements. They need to be briefed and often trained in all these activities.

1.23.4 HR

At one time, the personnel department tended to be the sponsor and custodian of performance appraisal schemes. As a result, line managers regarded them as the preserve of personnel and therefore not their concern. They filled up the forms, often because they had to but unenthusiastically. The emergence of the 'business partner' concept of HR led to change in direction. HR no longer ran the performance appraisal scheme; instead their role is to encourage and facilitate the sort of performance management processes. They work alongside with the line managers, helping them as necessary to develop their work and encouraging their use. Importantly, they assemble teams of committed and experienced managers who can act as coaches and mentors and stimulate the creation of communities of practice, ensuring that performance management is on the agenda. More specifically, they

run training events and conduct surveys to evaluate the effectiveness of performance management. In essence, HR specialists exist to support performance management rather than drive it.

1.24 Evaluating Performance Management

It is clearly important to monitor the introduction of performance management very carefully but it is equally vital to continue to monitor and evaluate it regularly especially after its first year of operation.

1.24.1 Method

The best method of monitoring and evaluation is asked those involved managers and individuals, how it worked. As many as possible should be seen, individually and in groups. The evaluation can be carried out by members of a project team or by the HR function.

Individual interviews and focus group discussions can be supplemented by a special survey of reactions to performance management which could be completed anonymously by all staffs. The ultimate test, of course, is analyzing organizational performance to establish the extent to which improvements can be attributed to performance management. It may be a difficult to establish a direct connection but more detailed assessments with manager and staff on the impact of the process may reveal specific areas in which performance has been improved and could be linked to an overall performance measure.

1.24.2 A typical approach

We can monitor performance management by carrying out:

- 1) Recording and analyzing performance assessments, which helps establish how managers are using performance management.
- 2) One to one interviews with managers, identifying how they are finding the experience of performance management and where they need more support
- 3) Employee attitude surveys and discussion groups
- 4) Reviewing improvements in the performance of the organization

In order to maintain high standards it was deemed necessary to maintain training in performance management for all new staffs including individuals who are promoted to management posts. The trainings are to be updated to keep the principles and practices fresh. These guidelines are valid for any organization that wants to develop and maintain effective performance management processes.

1.24.3 Points to be covered in evaluating performance management

- 1) Performance Agreements
 - Are performance agreements being completed properly?

- Do they generally spell out realistic objectives, attribute and competence requirements, work plans, performance improvement and development plans?

2) Objectives

- Are objectives being agreed properly?
- Are they related clearly to key result areas?
- Do they generally meet agreed criteria for good objectives, i.e. are they demanding but attainable, relevant, measurable, agreed and time based?
- Are they integrated with organizational and departmental objectives?
- Are individuals and teams given the scope to contribute to the formulation of higher-level objectives?

3) Performance standards

- Are performance standards agreed for key aspects of the job where time-based and quantifiable objectives cannot be set?

4) Performance measures

- Are appropriate performance measures being agreed?

5) Feedback

- Are managers providing good feedback throughout the year as well as during formal review meetings?

6) Performance reviews

- Are both managers and individuals preparing properly for performance review meetings?
- How well are managers conducting such meetings, with particular reference to?
 - creating the right (informal) atmosphere;
 - working to a clear structure;
 - using praise to get people to relax, to motivate and to provide them with encouragement;
 - letting the individual do most of the talking;
 - inviting self-appraisal;
 - discussing performance not personality;
 - being positive – facing up to situations;

- not springing surprises on the individuals they are assessing;
- agreeing realistic and measurable objectives and a plan of action.

7) Motivation

- How effective has performance management been in motivating and capabilities?
- How well have managers and team leaders carried out their role as coach, counsellor and mentor?

8) Ratings

- Have ratings been fair and consistently applied?

9) Performance-related pay

- Do managers and employees feel that rewards under the performance related pay scheme are properly and fairly linked to their performance?
- How well do they think that performance-related pay is acting as a motivator?

10) Documentation

- How well have the performance management forms been completed?

11) Briefing and training

- How effective have the briefing and training programmes been?

The outcome of the evaluation should be a report that summarizes findings and indicates what actions are required to correct shortcomings in the shape of change to the arrangements for further briefing and training.

1.25 Summary

Performance management is an essential process or system that been carried out in each company to evaluate how employees are performing in their role and how they work together to achieve the company's goals. Goals are the starting point for performance management. It creates the alignment between company, unit and individual goals. Need to ensure that every subordinate has goals, understand them and know why it is important. Performance should be measured effectively and the best way of evaluation has to be used to increase efficiency of the employees. An efficient performance management can lead to practical suggestions for motivating personnel about things manager can do like including making a fair and competitive pay out to employees, demonstrating trust, making jobs more complete, introducing challenge and identifying experts among employees through performance management. It also helps to eliminate fear from the workplace, preserving the dignity of subordinates, help to seek slackers, empowering people and avoiding micromanagement and hiring self-motivated people.

The tool we are going to look at is the balance scorecard to evaluate the performance management system in this insurance company as more effective and efficient tool for performance evaluation. The balanced scorecard is seen as a strategic management system that helps to incorporate all measures that have importance to the organization. The

early styles of the balanced scorecard were seen as hard to design and because of this it was discontinued by organizations. Companies have various uses for the balanced scorecard. Companies use the balanced scorecard to drive strategy execution, others use it to clarify strategy and make strategy operational. There are some companies who use the balanced scorecard to identify and align strategic initiatives and link budget with strategy. There is also a group who makes use of the balanced scorecard to align the organization with strategy. Another group is contented on using the balanced scorecard to conduct periodic strategic performance reviews to improve the company's strategy. The balanced scorecard is used by government agencies, military troops of various countries, and different segments within an organization, non profit organizations and school organizations as well. The study will go further into the idea of the balanced scorecard. The study will determine the effects of the balanced scorecard on modern organizations.

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